

STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC

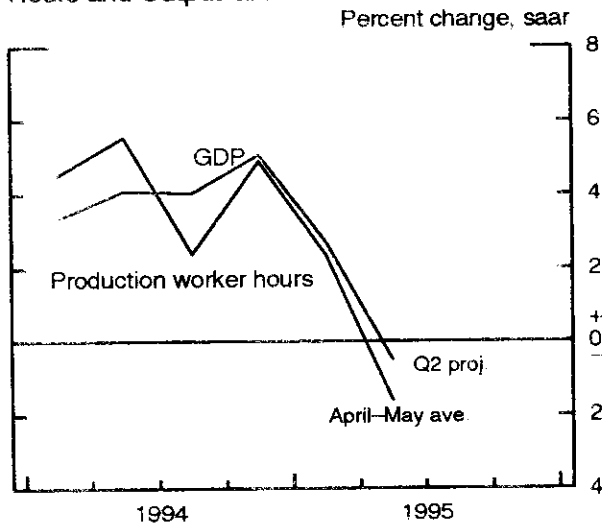
Material for
Staff Presentation to the
Federal Open Market Committee

July 5, 1995

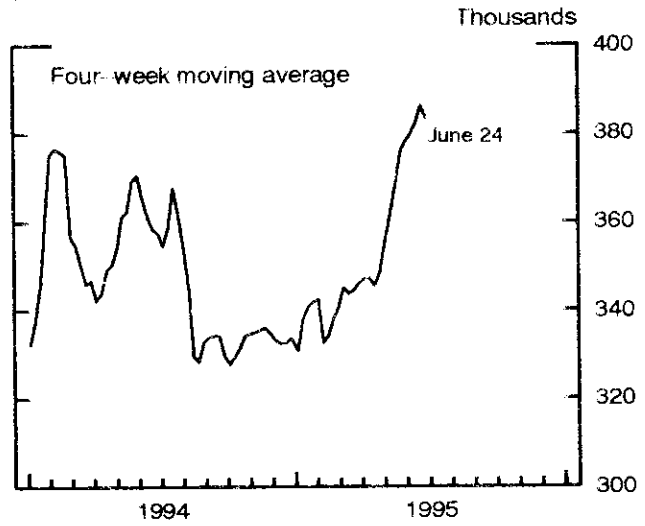
Chart 1

Second-Quarter Indicators

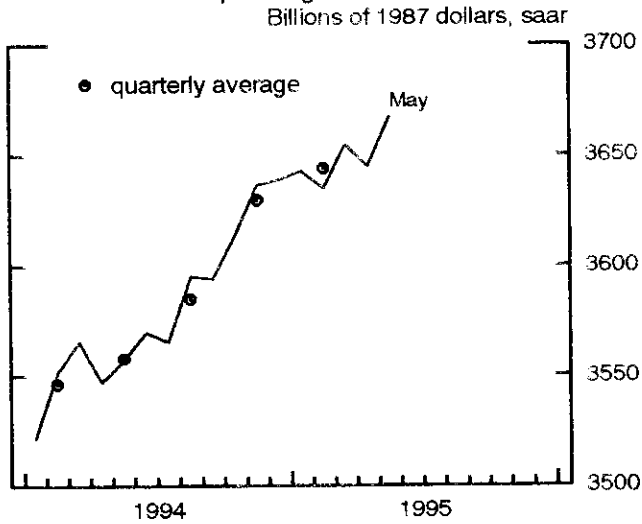
Hours and Output Growth



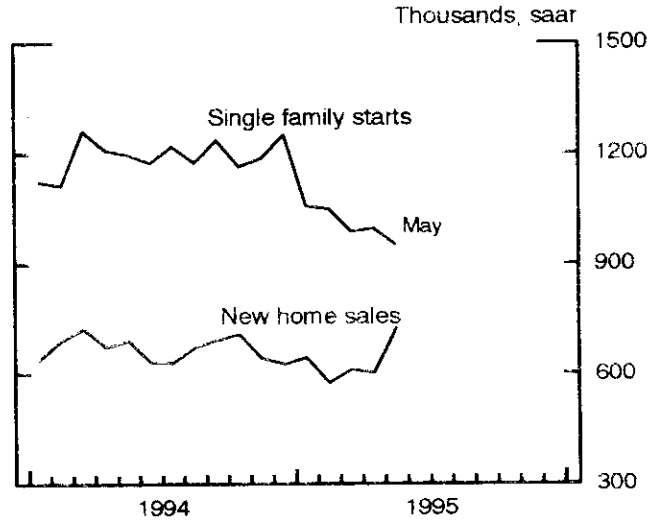
Initial Claims



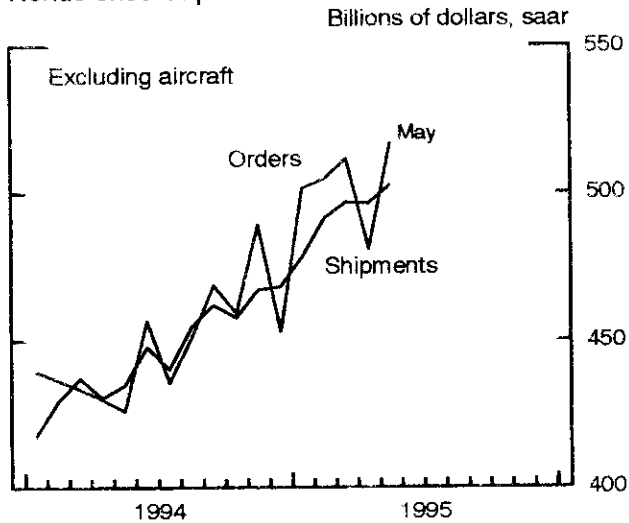
Real Consumer Spending



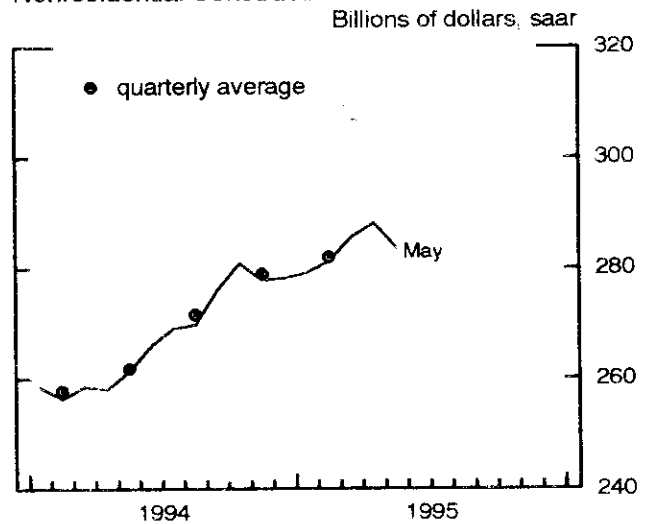
Home Sales and Starts



Nondefense Capital Goods



Nonresidential Construction



Monetary and Fiscal Outlook

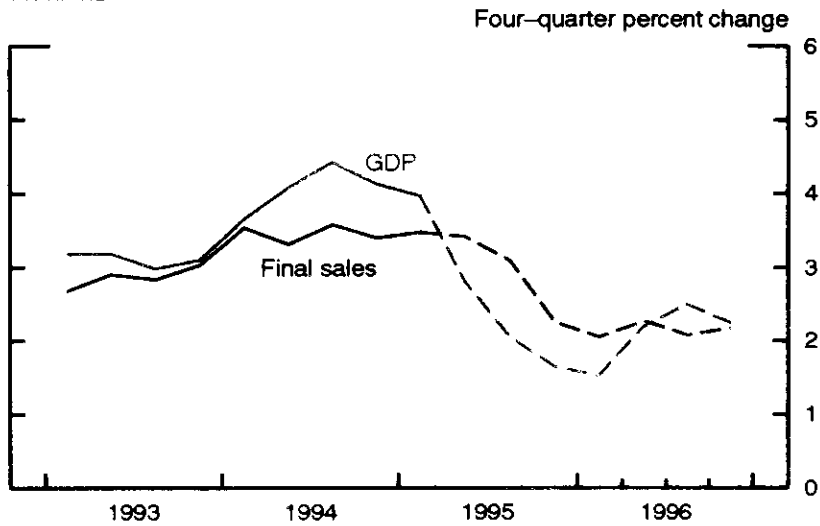
- Federal funds rate assumed to remain at 6 percent into early 1996. Rate then declines somewhat, given lower inflation and effects of fiscal restraint on the “natural” rate of interest.
- Bond yields rise appreciably by the end of this year and reverse only a portion of that back-up during 1996.
- Lenders become more cautious—but only mildly so.
- Dollar little changed through 1996.

Federal Deficit Reduction—Annual Increments

	Billions of Dollars of Deficit Reduction	
	<u>FY 1996</u>	<u>FY 1997</u>
Budget resolution (before tax cuts)	40	40
President's plan (CBO reestimate)	18 (14)	6 (4)
<hr/>		
Greenbook assumptions	30	25
Purchases	8	6
Transfers, grants, subsidies	25	24
Taxes	—4	—8
Interest payments	1	3

Forecast Summary

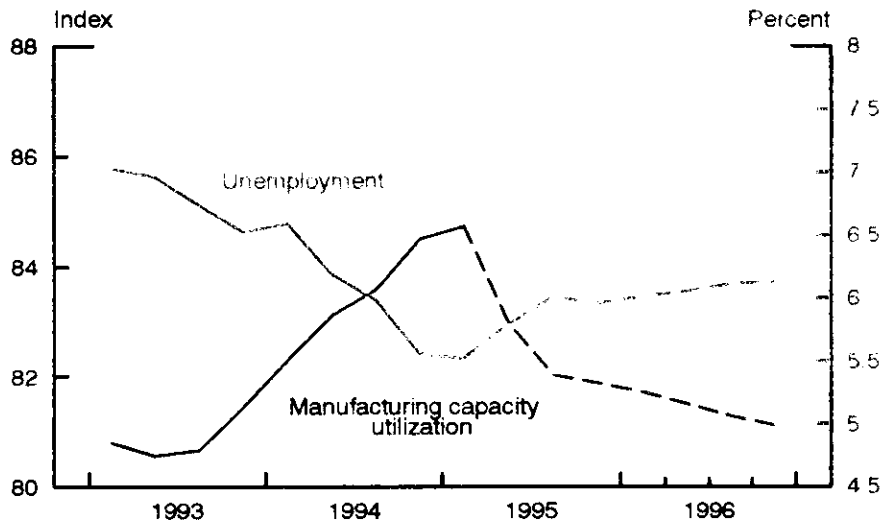
Real GDP



Q4/Q4 Percent Change

	GDP	Final Sales
1993	3.1	3.0
94	4.1	3.4
95	1.7	2.2
96	2.2	2.2

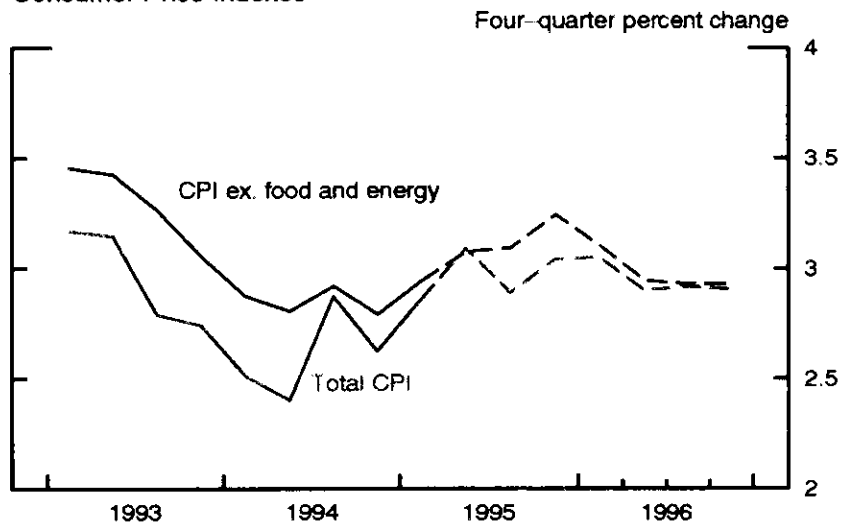
Resource Utilization Rates



Q4 Average

	Unemp.	C.U.
1993	6.5	81.4
94	5.6	84.5
95	6.0	81.9
96	6.1	81.1

Consumer Price Indexes



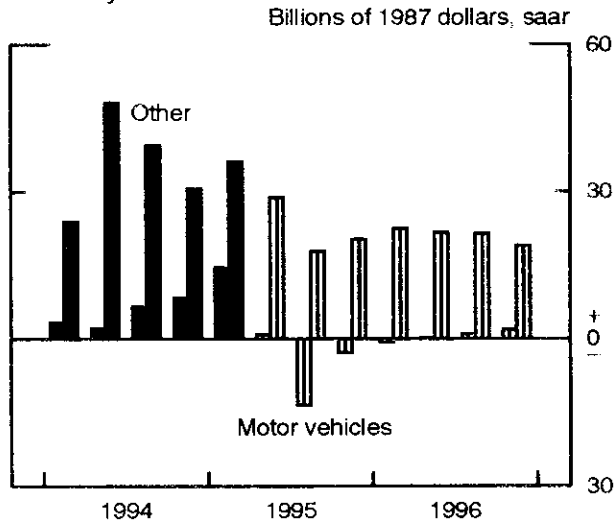
Q4/Q4 Percent Change

	CPI	CPIX
1993	2.7	3.1
94	2.6	2.8
95	3.0	3.2
96	2.9	2.9

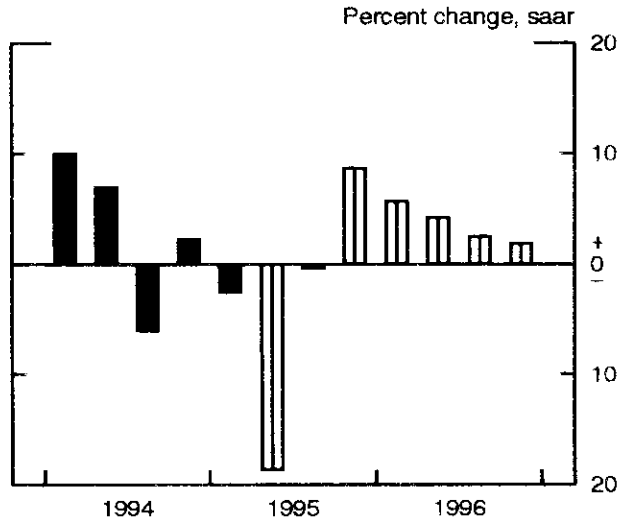
Chart 4

Outlook for Economic Activity

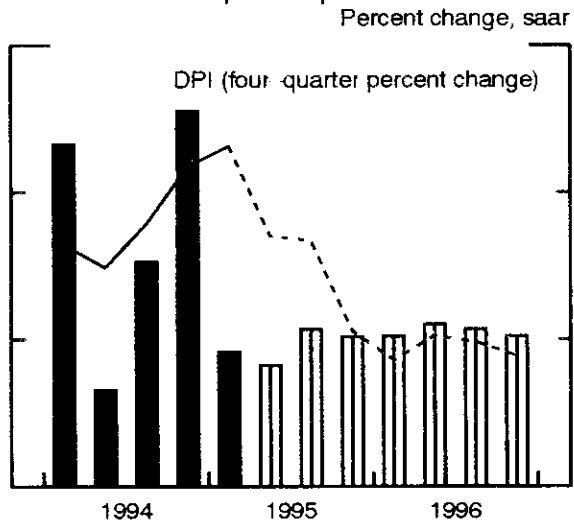
Inventory Investment



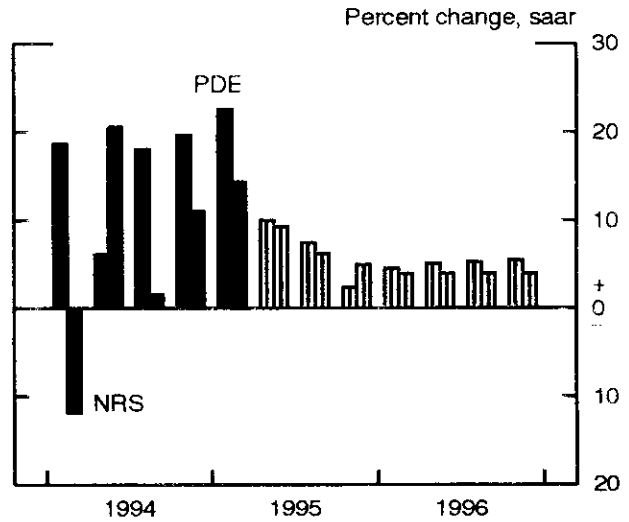
Residential Investment



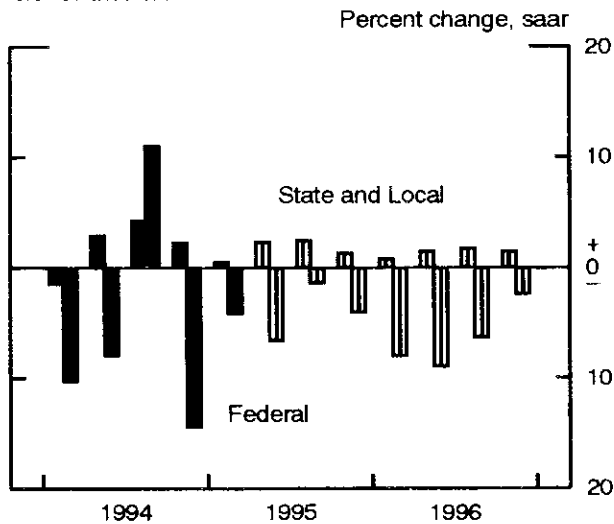
Personal Consumption Expenditures



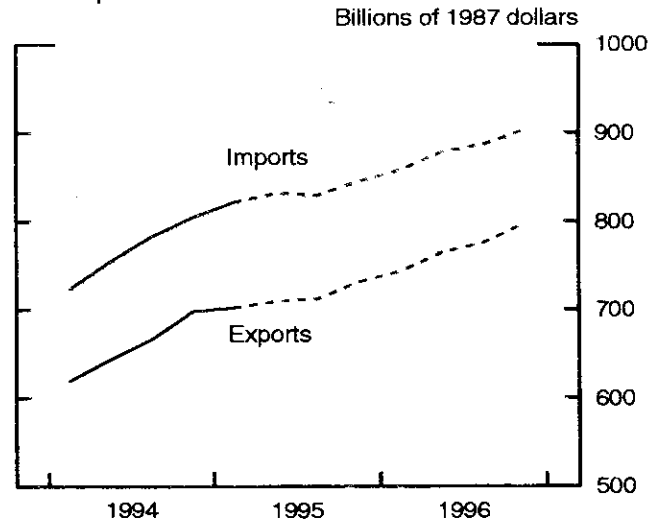
Business Fixed Investment



Government Purchases



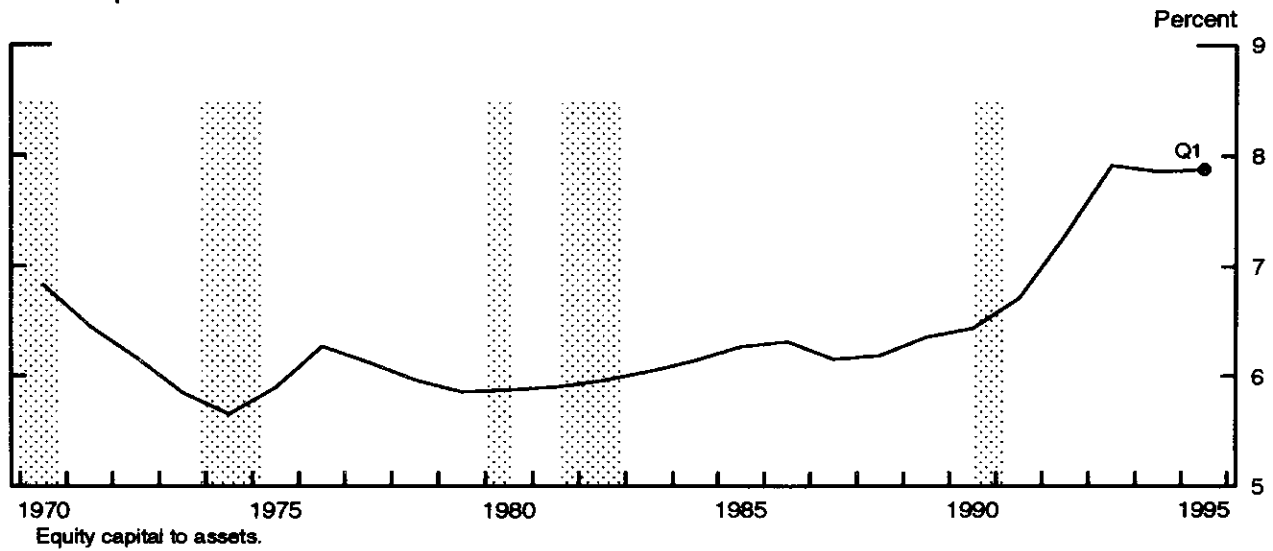
Net Exports



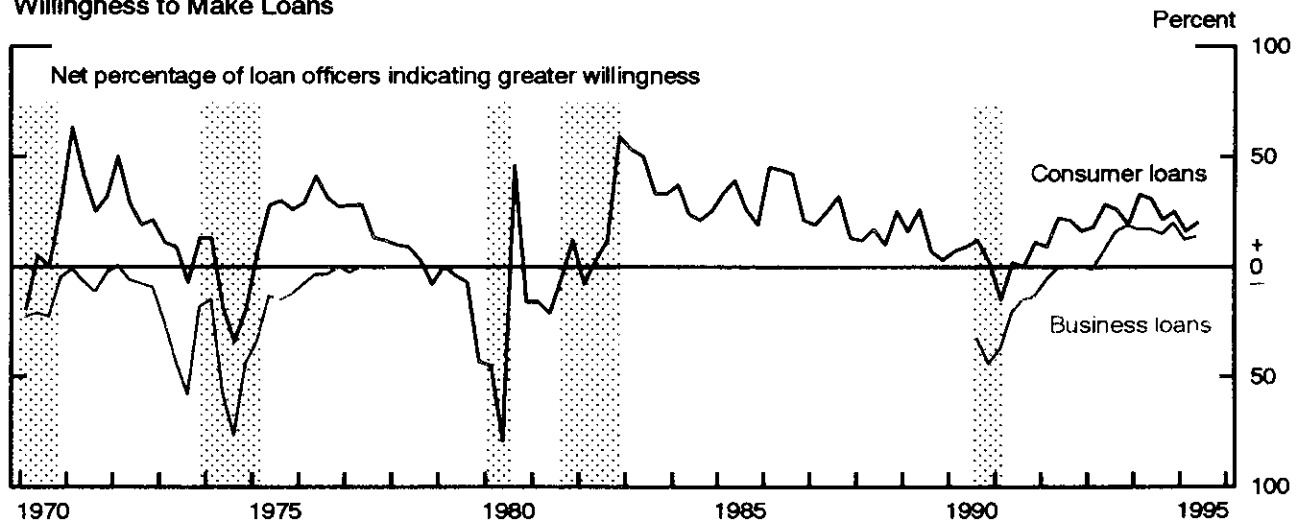
Note: All data are in constant dollars.

Credit Availability

Bank Capital-to-Asset Ratio



Willingness to Make Loans



Bank Loan Rate Spreads

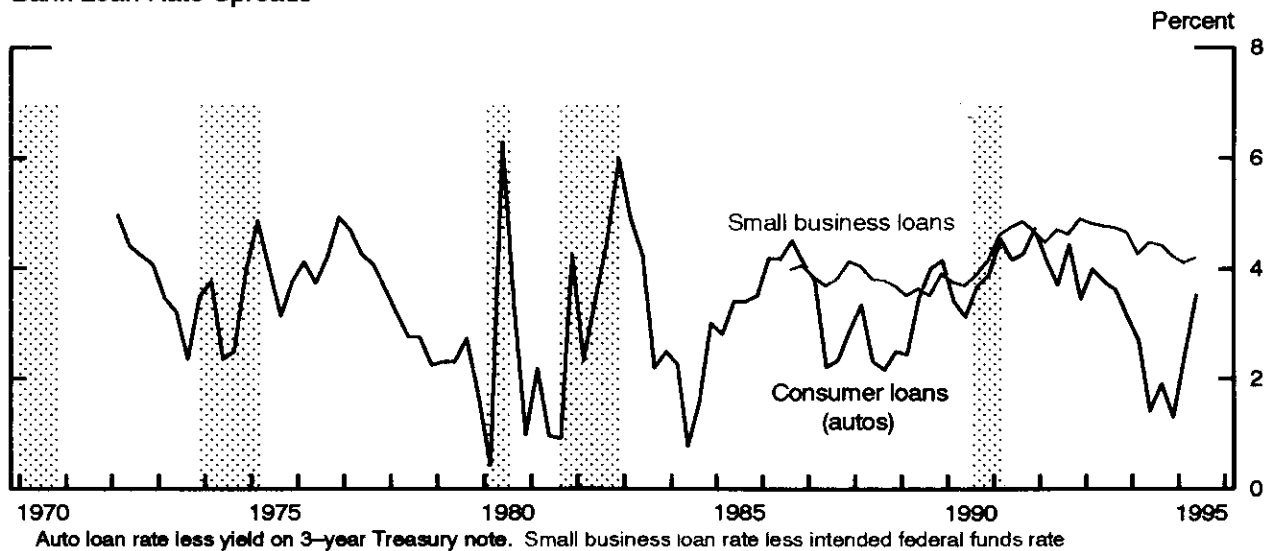
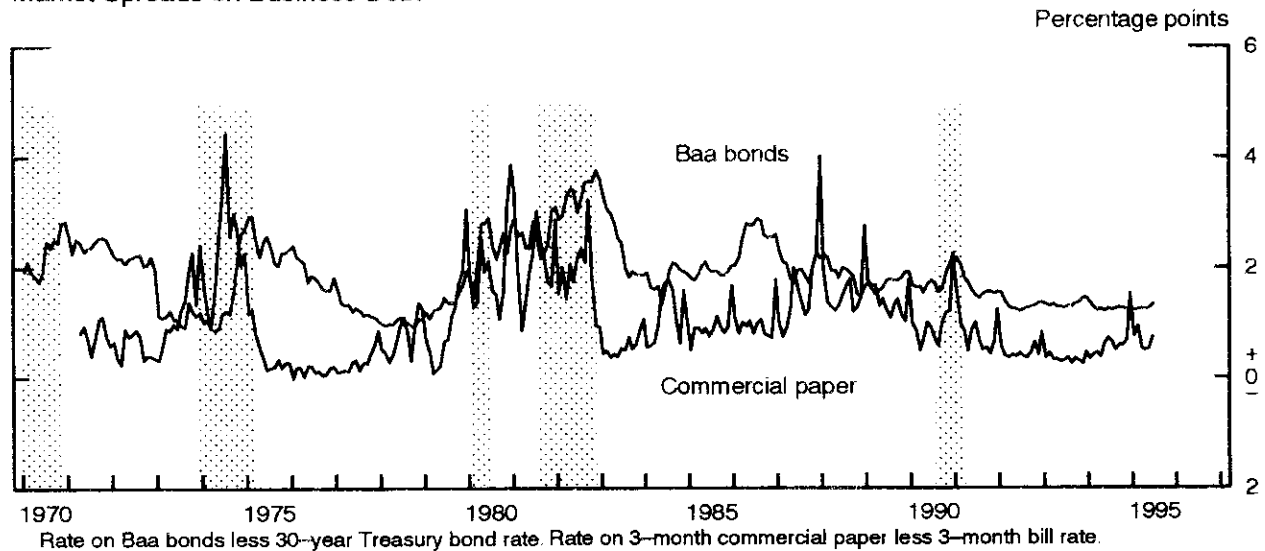


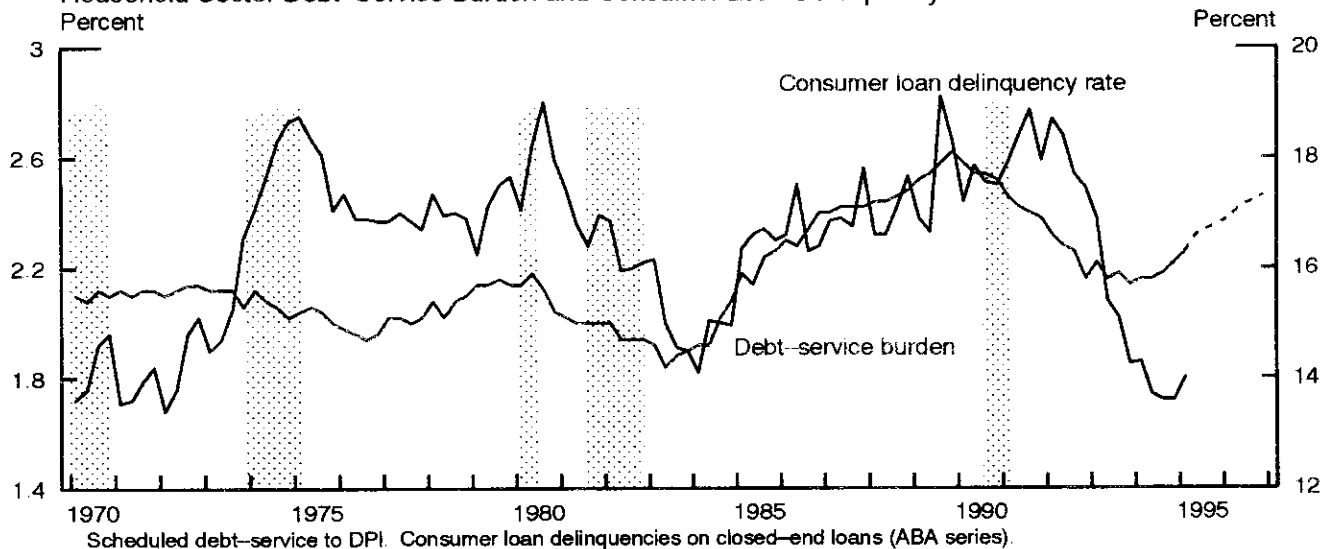
Chart 6

Credit Availability

Market Spreads on Business Debt



Household Sector Debt-Service Burden and Consumer Loan Delinquency Rate



Corporate Net Interest Outlays to Cash Flow and Business Loan Delinquencies

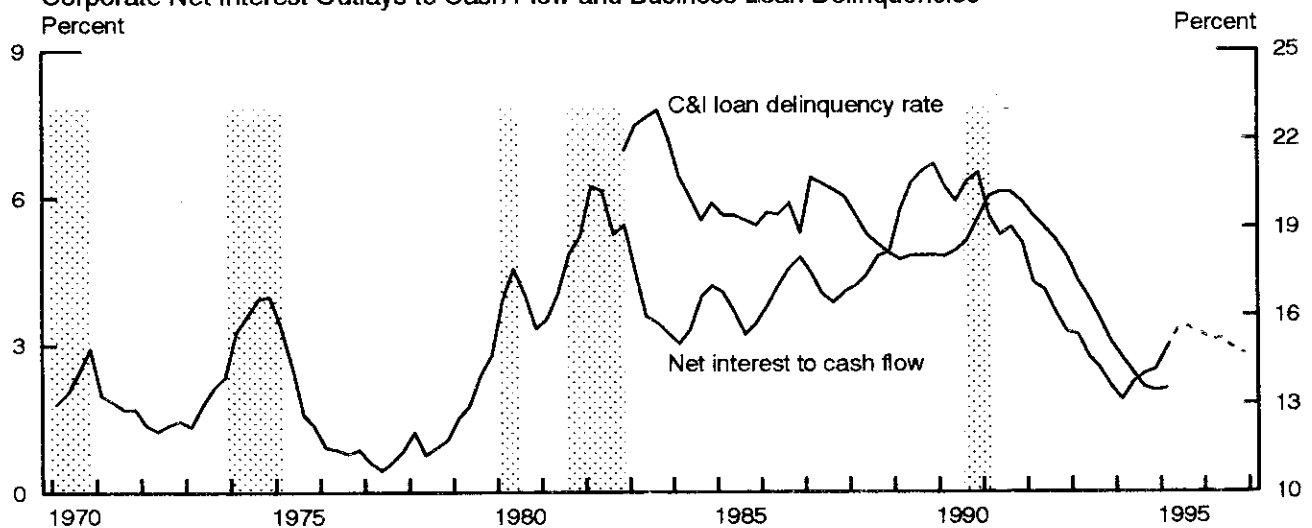
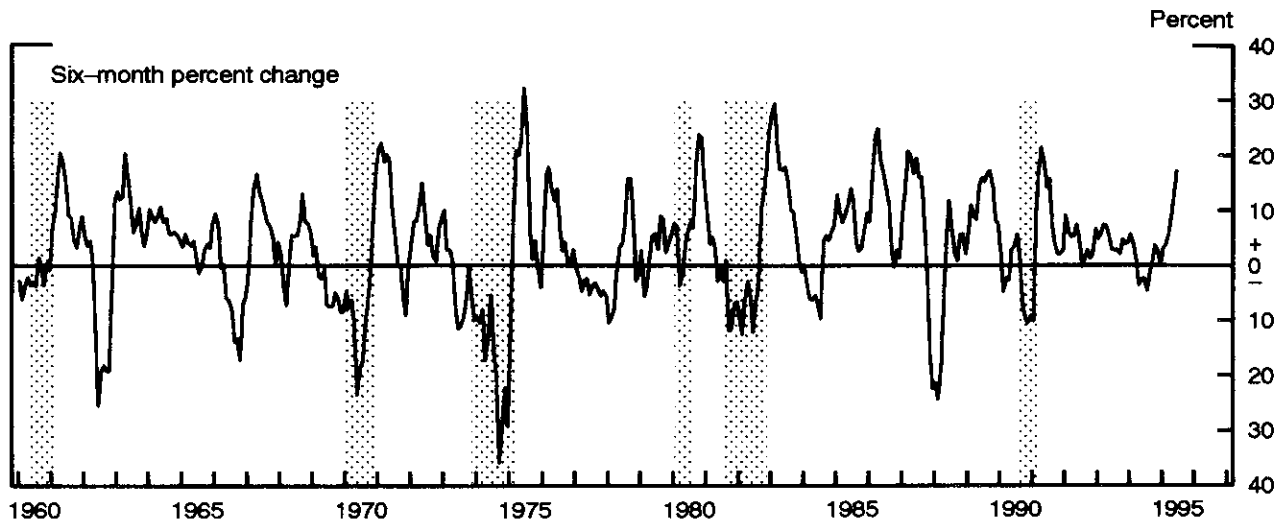


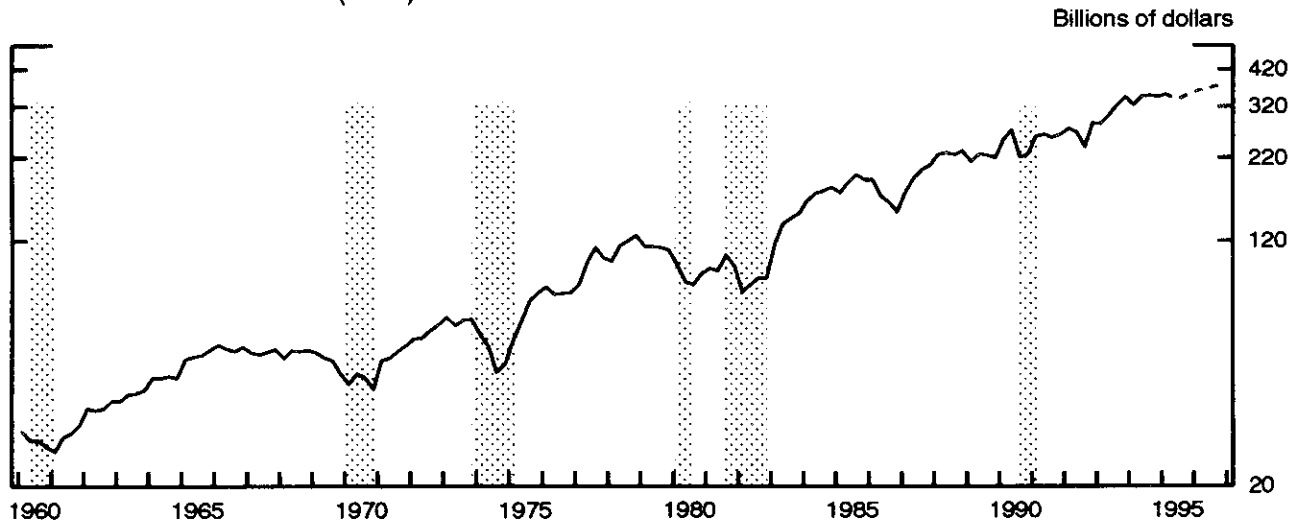
Chart 7

Stock Market

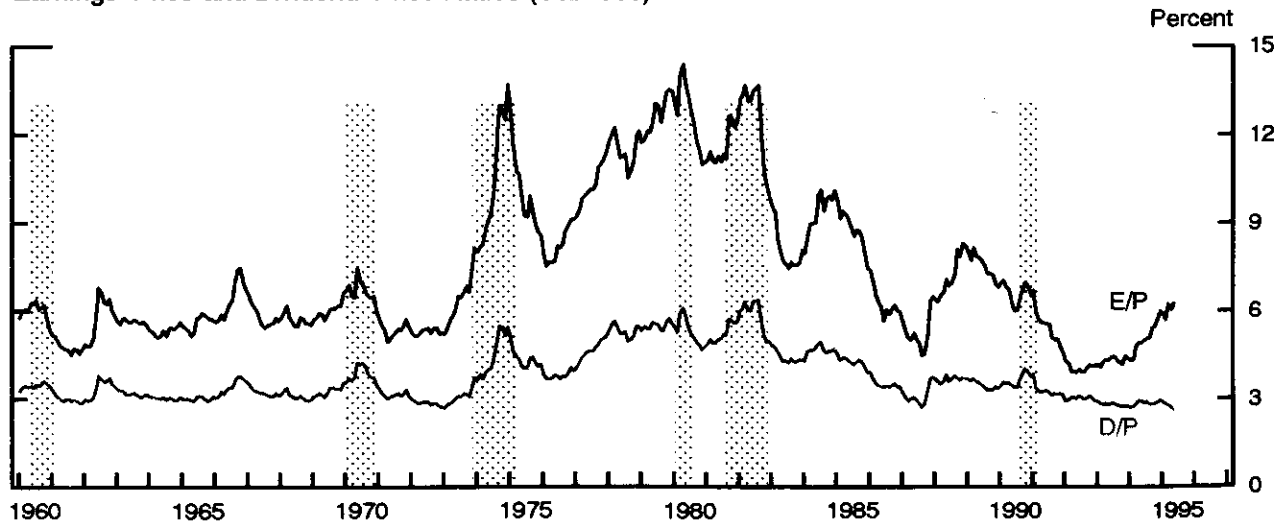
S&P 500 Price Index



After-tax Economic Profits (NIPA)

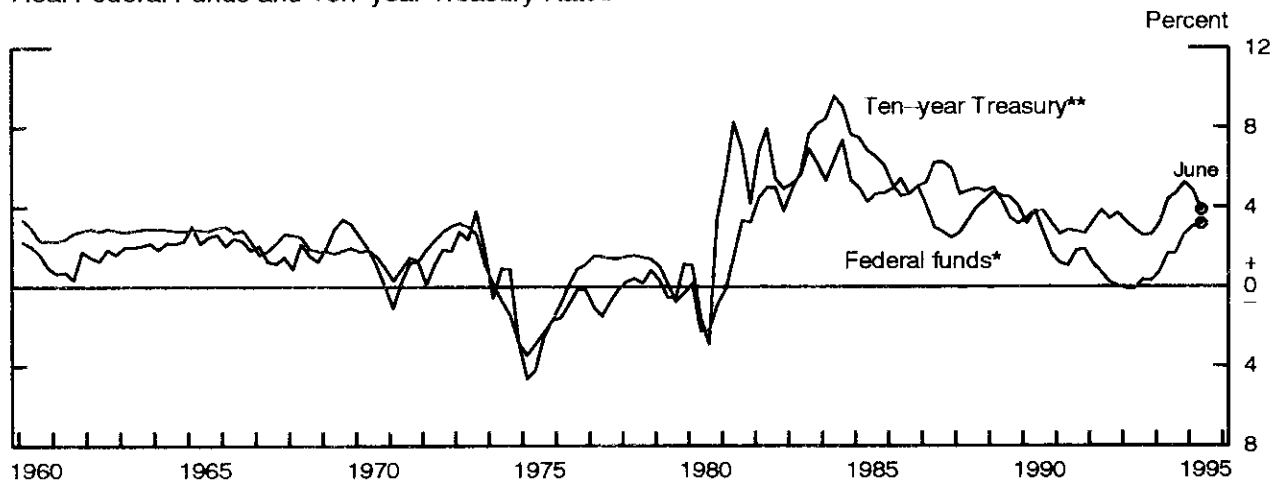


Earnings-Price and Dividend-Price Ratios (S&P 500)



Real Interest Rates and Alternative Fiscal Scenarios

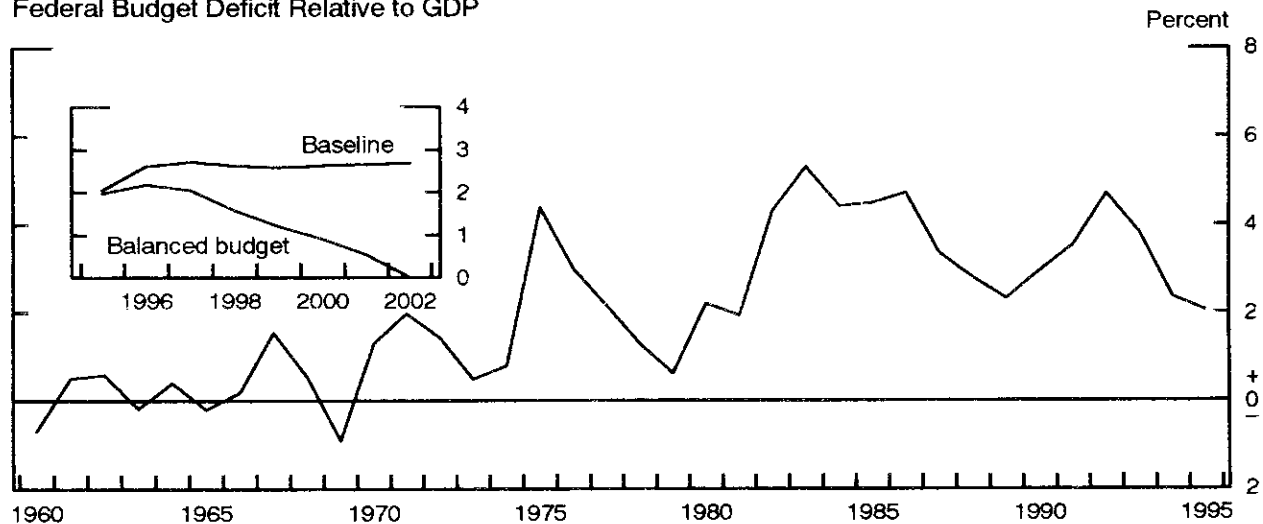
Real Federal Funds and Ten-year Treasury Rates



*Real federal funds rate is the nominal rate on federal funds less the change in the CPI over the previous four quarters.

**Real ten-year Treasury rate is the nominal rate on ten-year notes less the average annual change in the CPI over the previous five years.

Federal Budget Deficit Relative to GDP



Real Federal Funds Rate

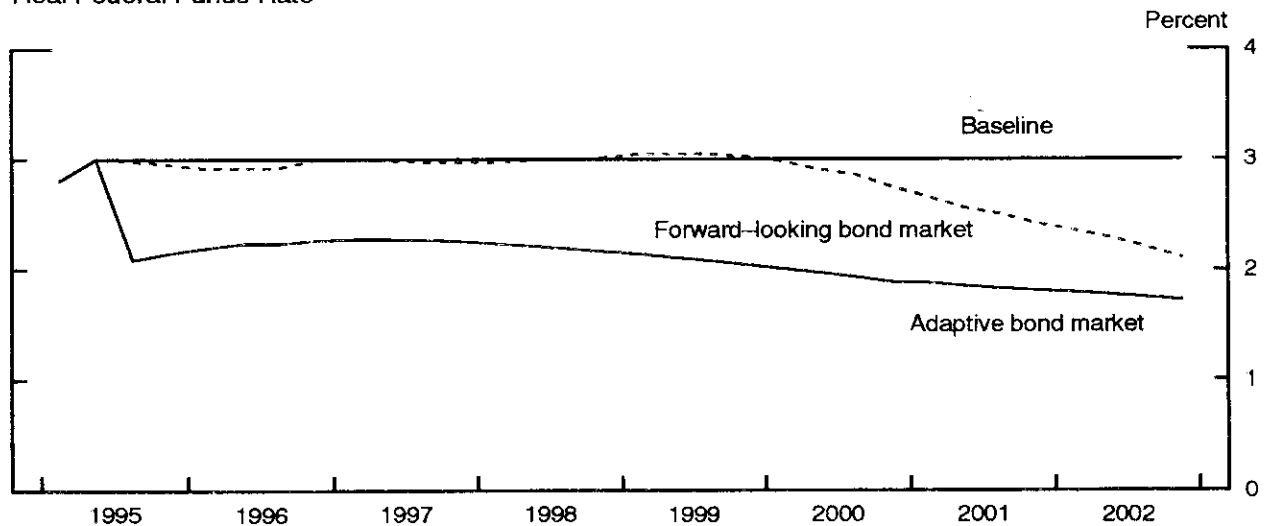
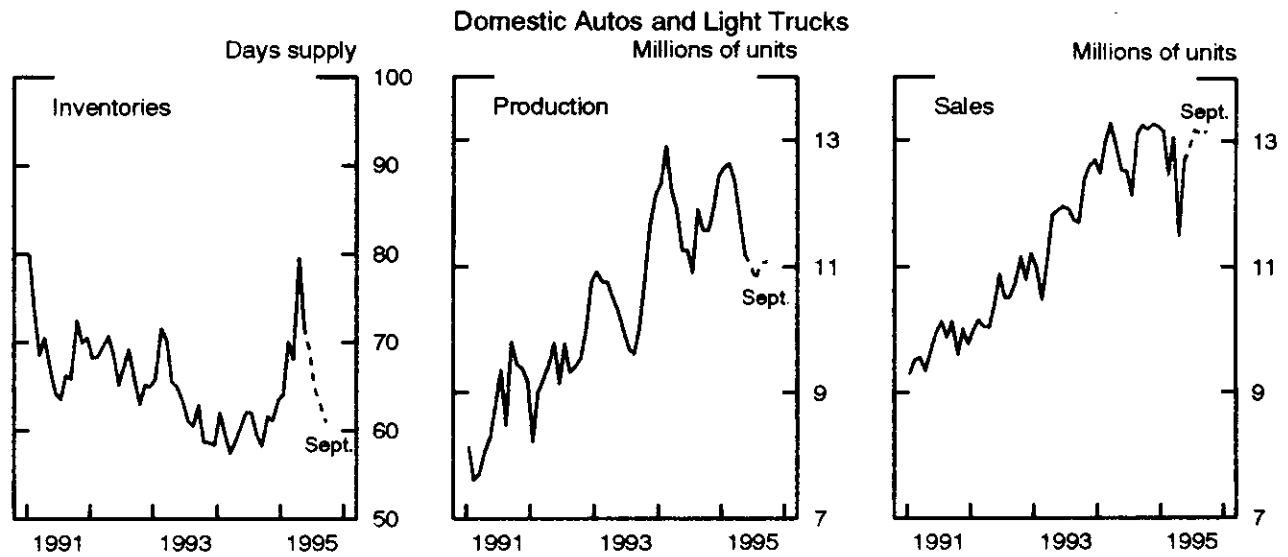


Chart 9

Inventories, Production, and Sales



Inventory-Sales Ratio — Manufacturing and Trade Excluding Motor Vehicles

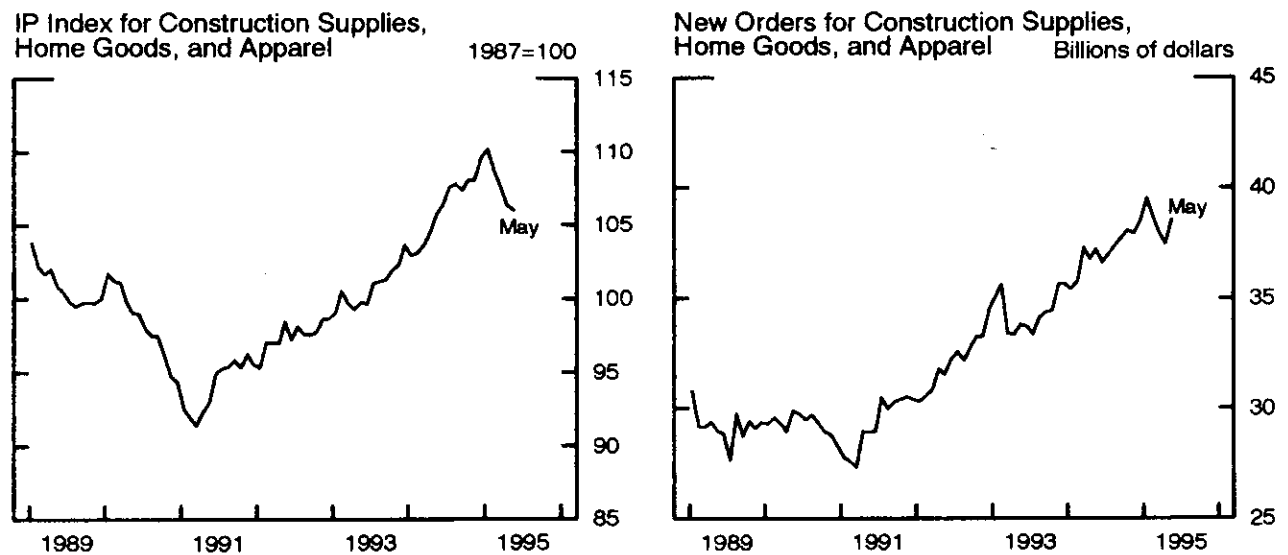
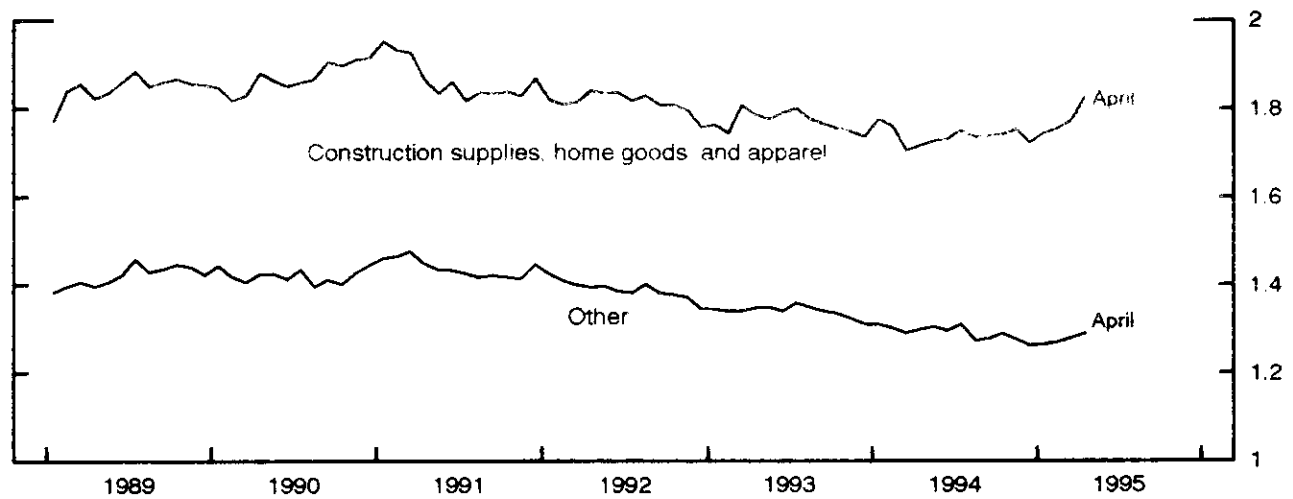
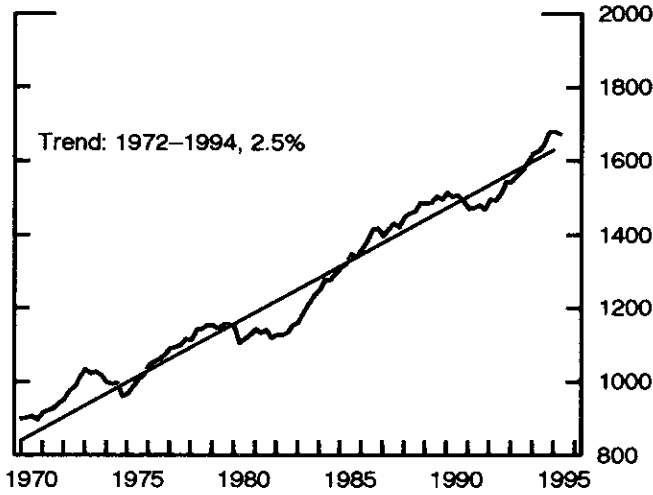


Chart 10

Consumer Spending

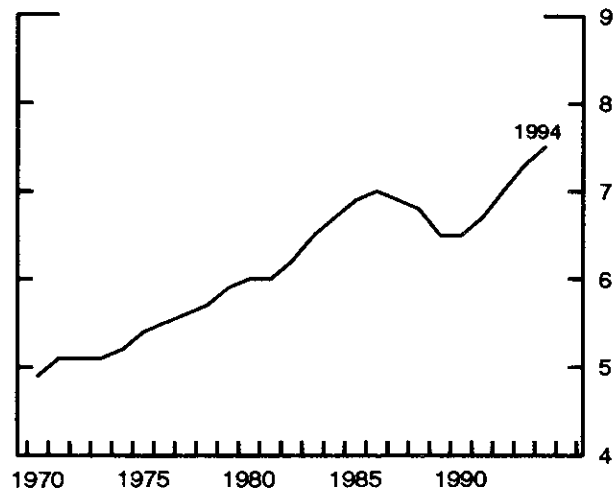
Real PCE Durables and Nondurables

Billions of \$1987, saar



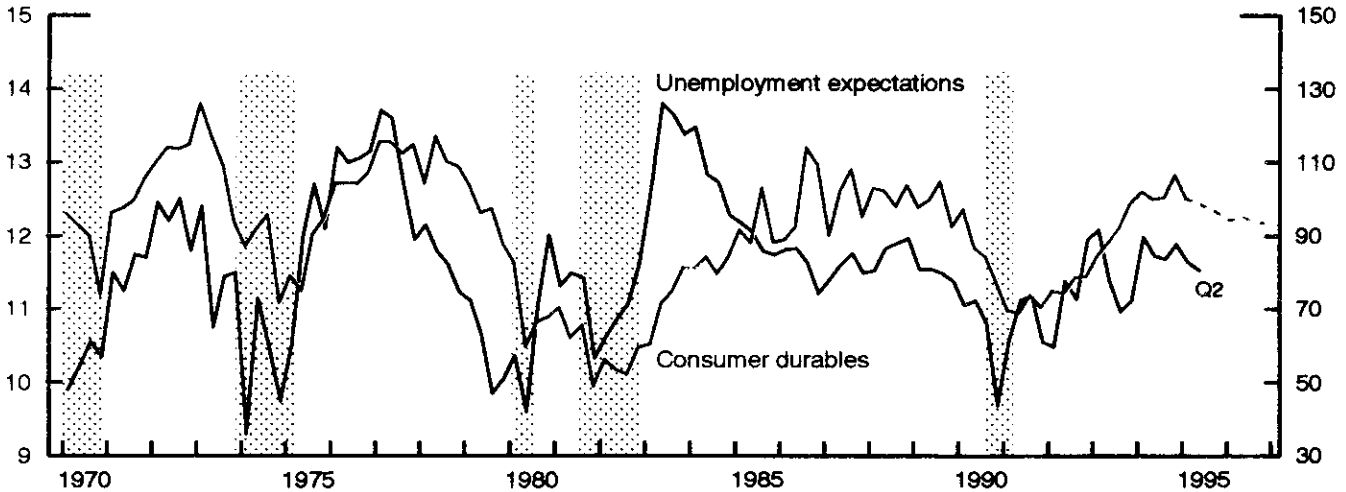
Median Age of Auto Stock*

Years



Unemployment Expectations and Consumer Durables*

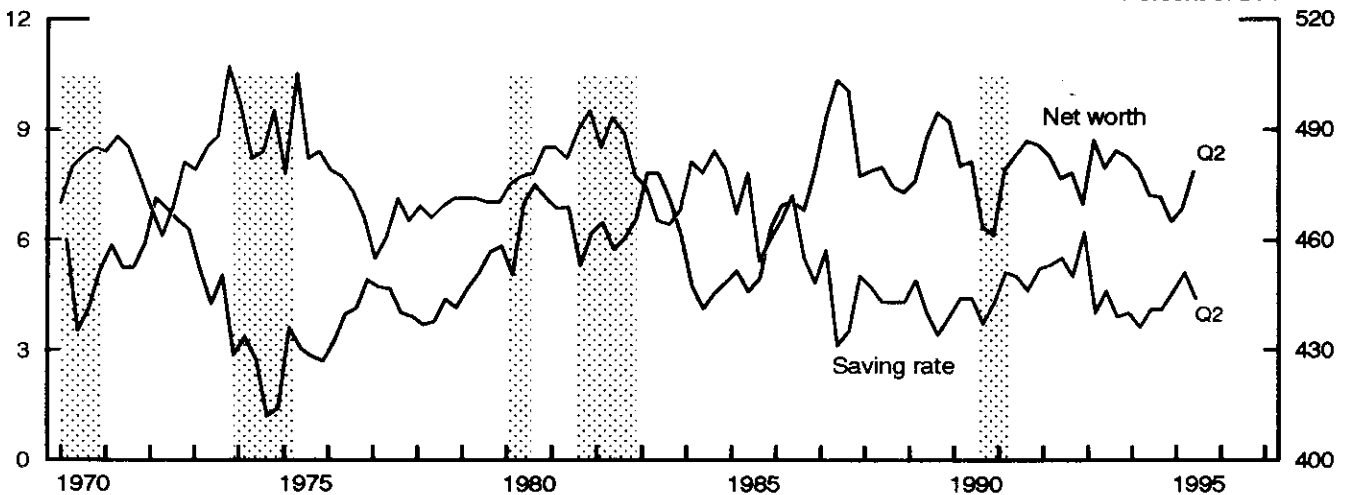
Percent of DPI



*Including leased autos.

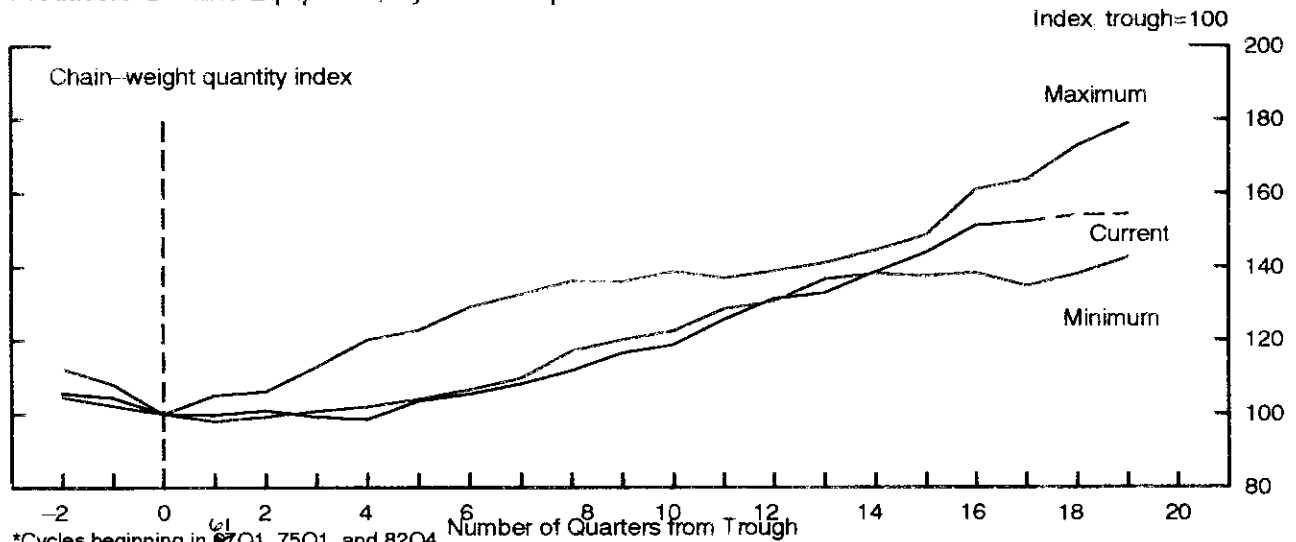
Household Net Worth and Personal Saving

Percent of DPI

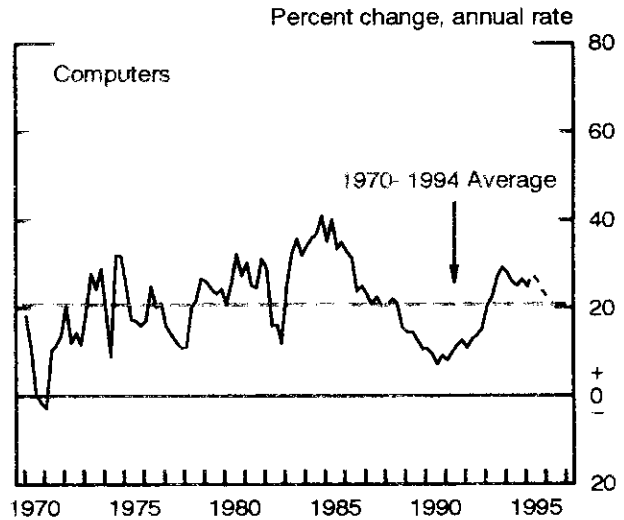
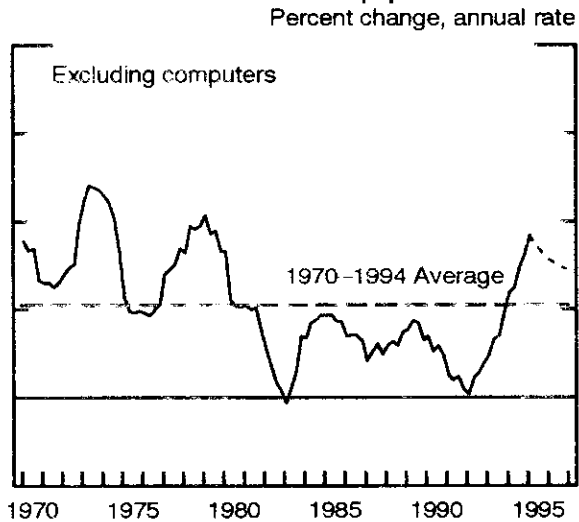


Business Equipment

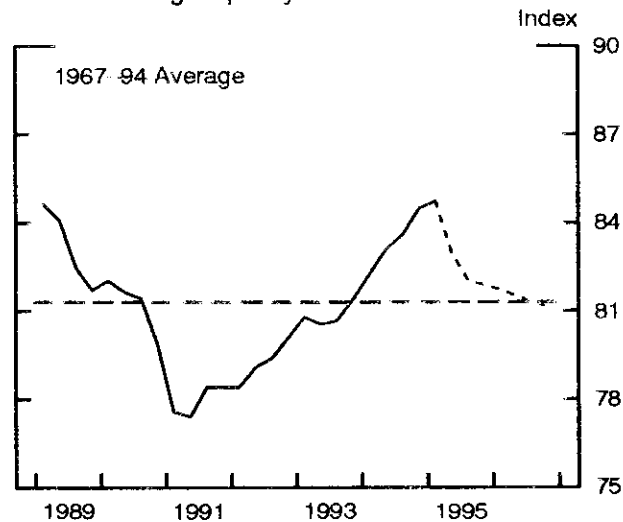
Producers' Durable Equipment, Cyclical Comparison*



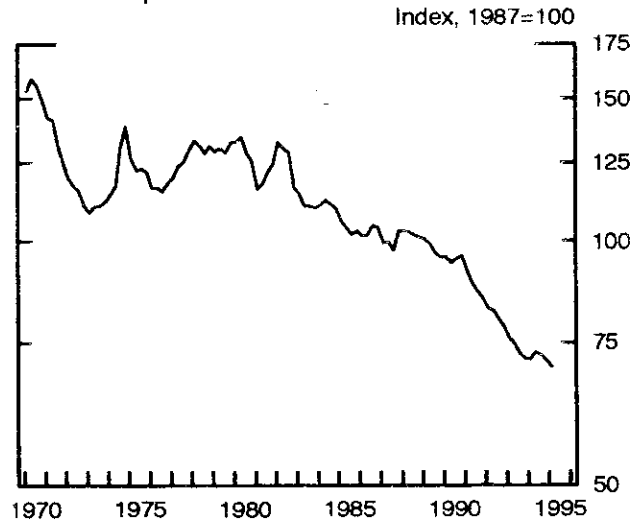
Growth in the Net Stock of Equipment



Manufacturing Capacity Utilization Rate



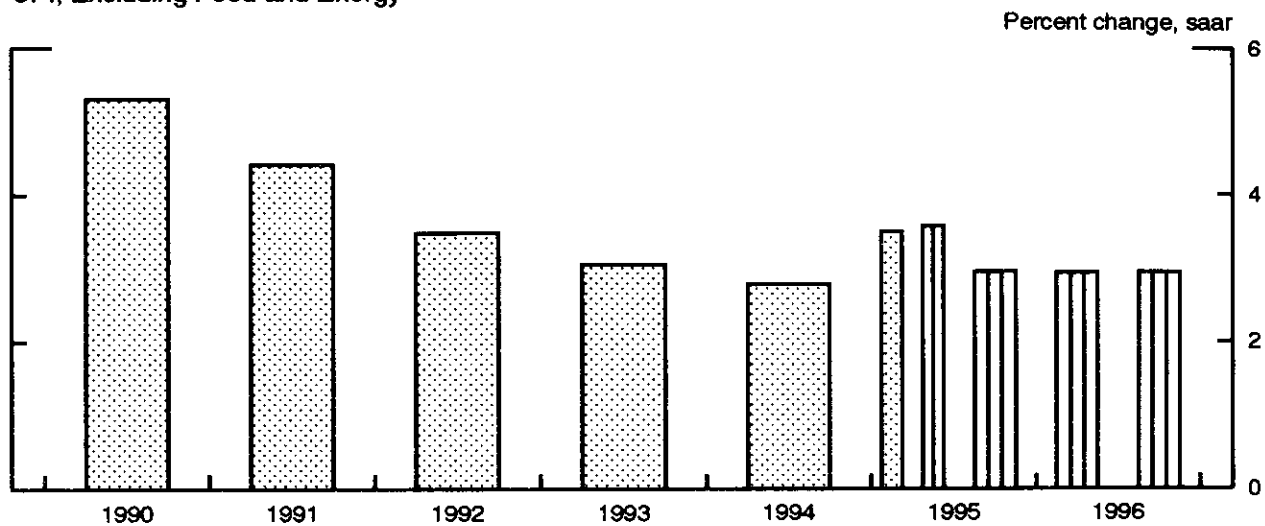
Cost of Capital* Relative to Cost of Labor



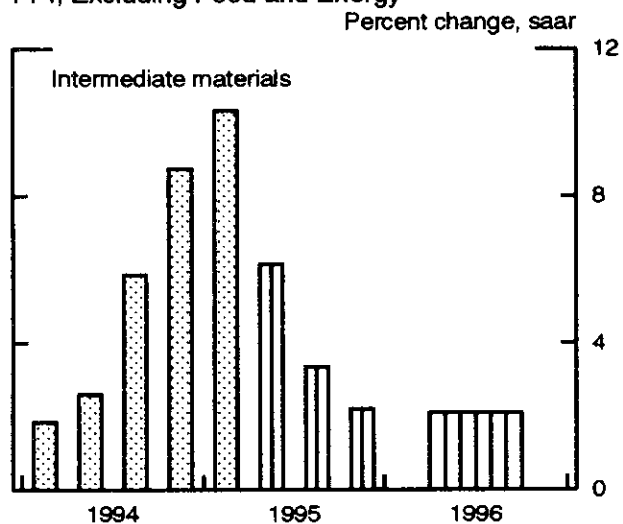
*Producers' durable equipment

Chart 12
Inflation

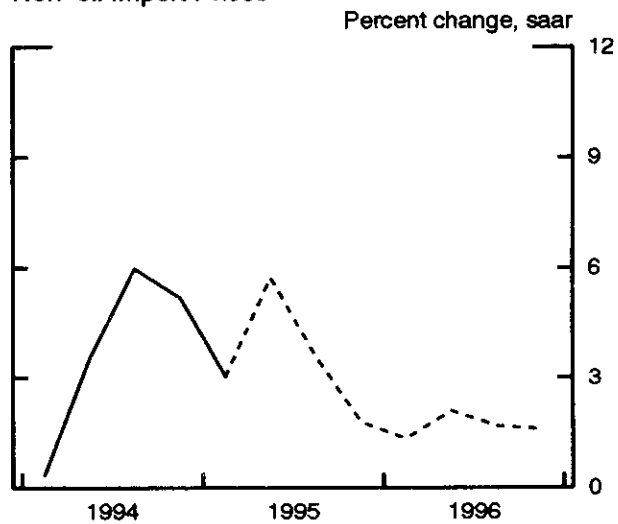
CPI, Excluding Food and Energy



PPI, Excluding Food and Energy



Non-oil Import Prices



Employment Cost Index

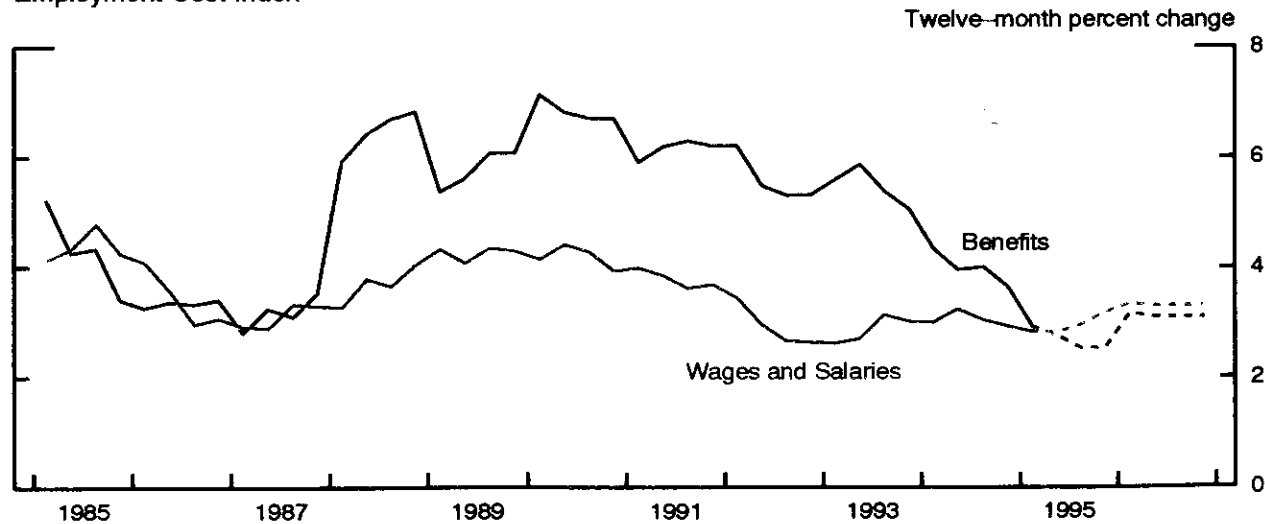
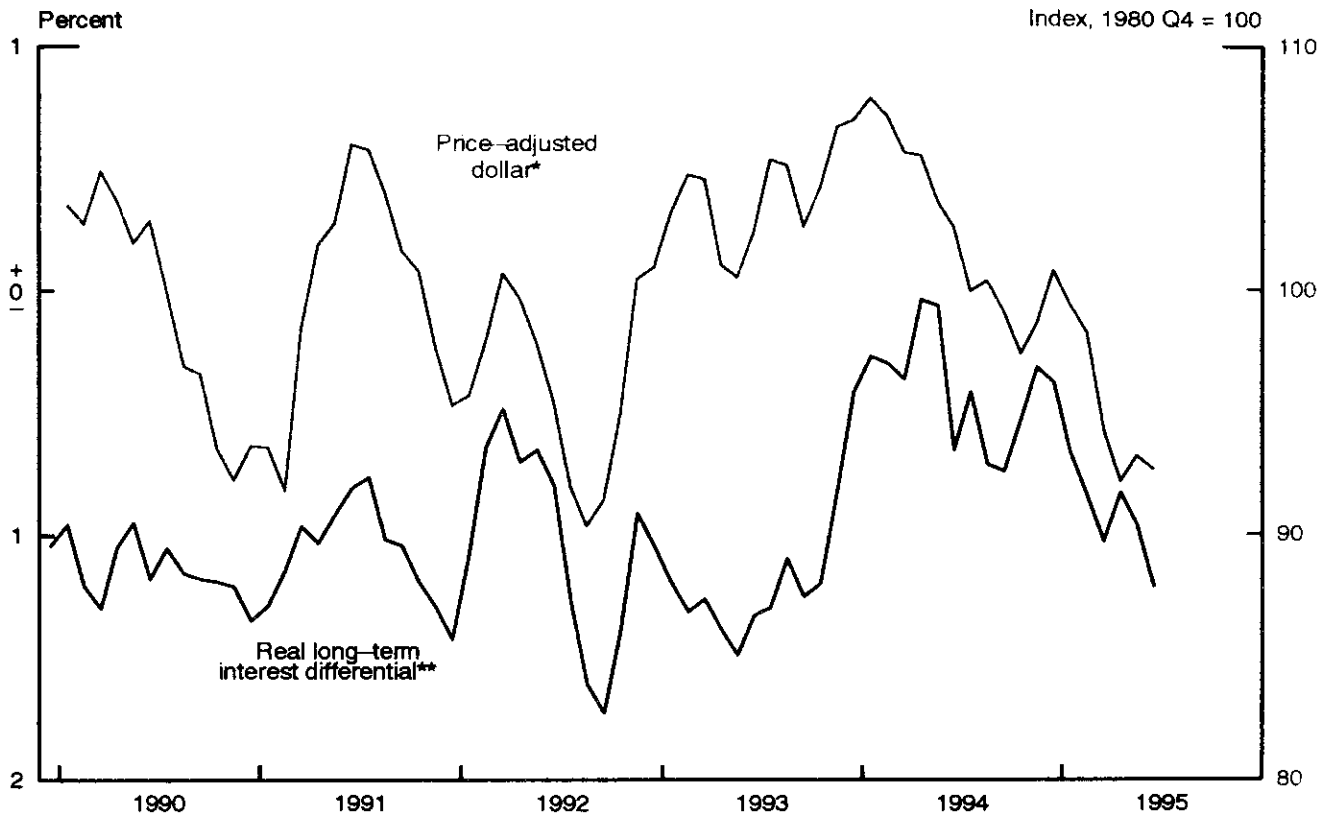


Chart 13

Dollar Exchange Rates

The Dollar and the Interest Differential
Percent



* Weighted averages against foreign G-10 countries, adjusted by relative consumer prices.

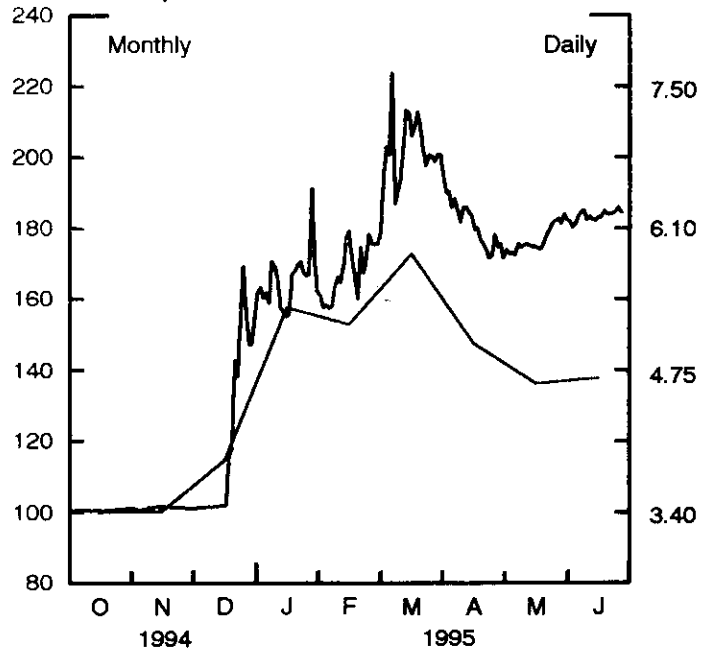
** Difference between rates on long-term U.S. 10-year government bond and a weighted average of foreign G-10 benchmark government bonds adjusted for expected inflation.

Peso-Dollar Exchange Rates

Price-adjusted

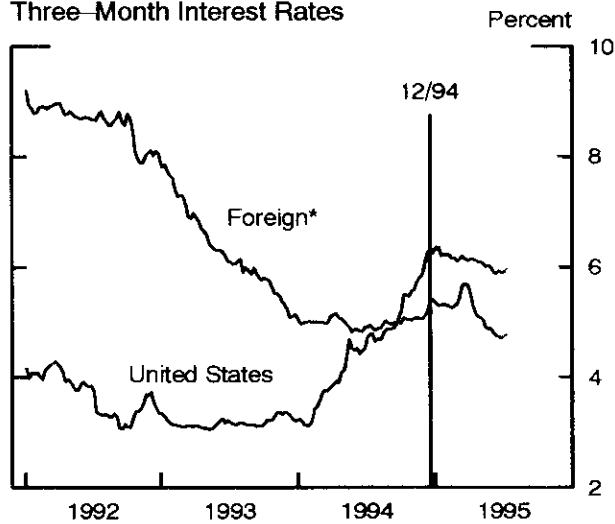
Nominal

	Percent change 12/94 to 7/3/95
Yen	-15
Deutschmark	-12
Pound sterling	-2
Italian lira	-1
Canadian dollar	-1
G-10 Average	-9

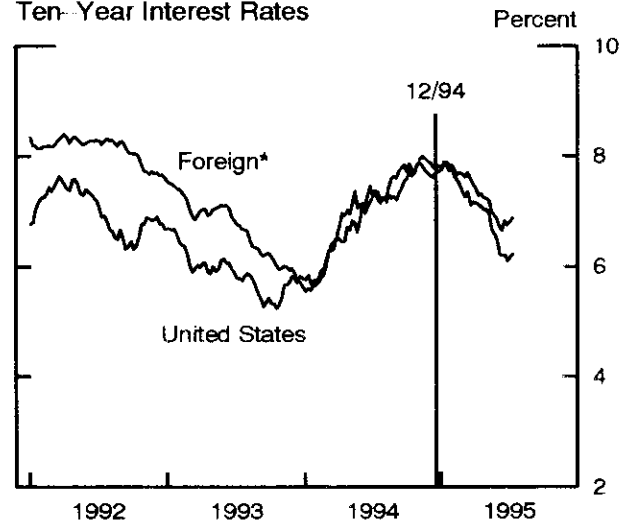


Interest Rates

Three-Month Interest Rates



Ten-Year Interest Rates



* Multilateral trade-weighted average for foreign G-10 countries.

Three-month

	Level 7/3/95	Change 12/94 to 7/3/95
Germany	4.50	-0.79
Japan	1.17	-1.17
Foreign G-10	4.76	-0.56
United States	5.95	-0.34

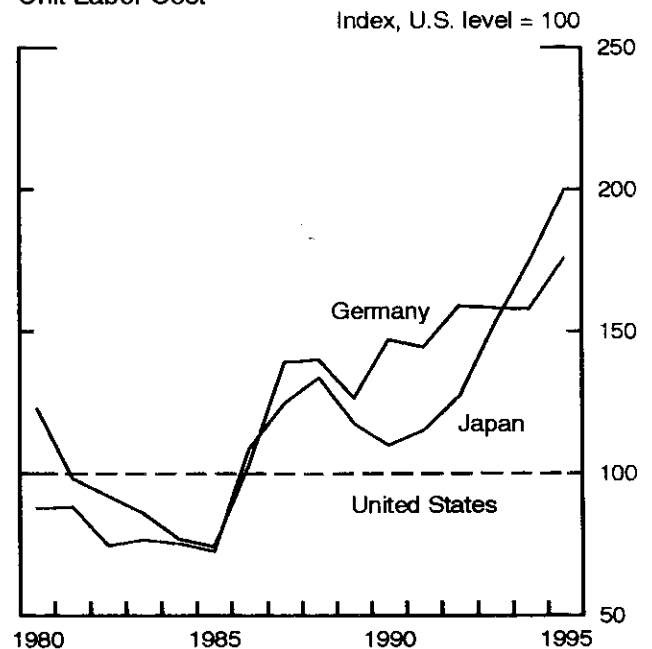
Ten-year

	Level 7/3/95	Change 12/94 to 7/3/95
Germany	6.94	-0.51
Japan	2.80	-1.73
Foreign G-10	6.88	-0.82
United States	6.22	-1.59

Influences on the dollar:

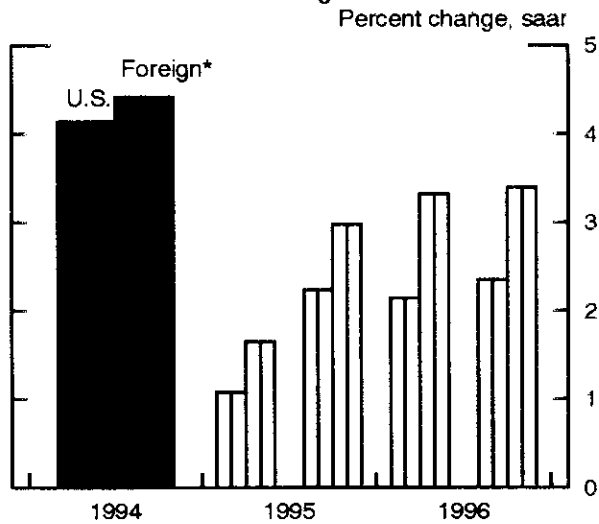
- Uncertainty about U.S. fiscal policy
- Long-run outlook for U.S. current account.

Unit Labor Cost



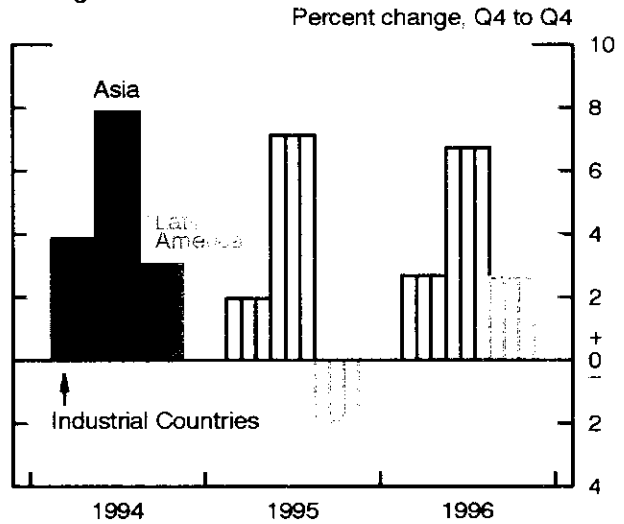
Foreign Outlook

Real GDP: U.S. and Foreign



* G-6 plus 16 other industrial countries and 12 developing countries. U.S. nonagricultural export weights.

Foreign Real GDP*



* U.S. nonagricultural export weights.

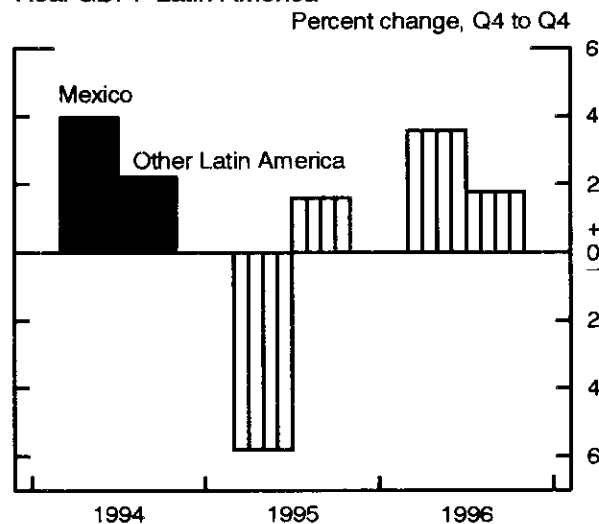
Share of U.S. Exports: 1992-1994

Industrial Countries	59
<i>of which</i>	
Foreign G-7	46
Canada	22
Japan	10
Latin America	17
<i>of which</i>	
Mexico	9
Asian Developing	21

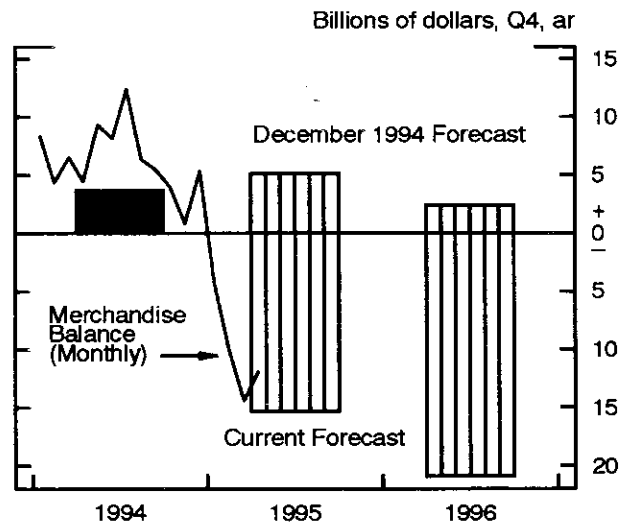
Foreign Growth

	Percent Change, saar		
	1995 H1	1995 H2	1996
Japan	0.6	1.8	2.0
Canada	-0.1	2.4	2.6
European G-7	2.5	3.0	2.9
Mexico	-9.5	-2.0	3.6
Asian LDCs	7.2	7.0	6.7

Real GDP: Latin America



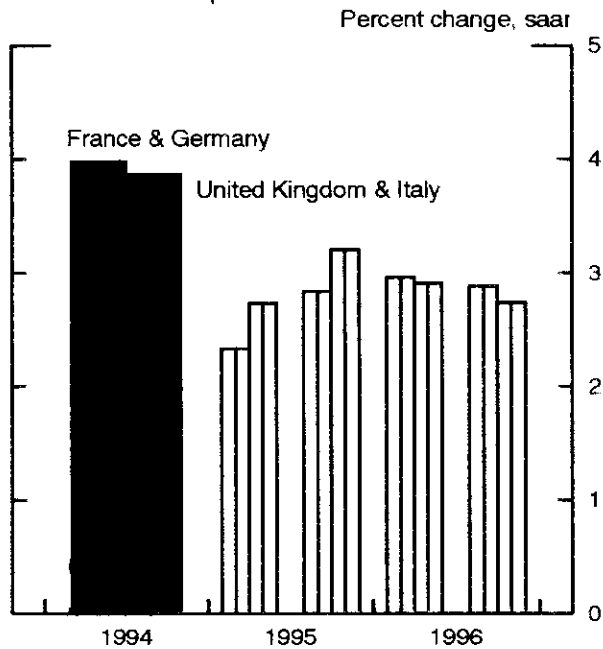
U.S. Trade Balance with Mexico*



* Goods and services, excluding oil.

Europe and Canada

Real GDP: Europe



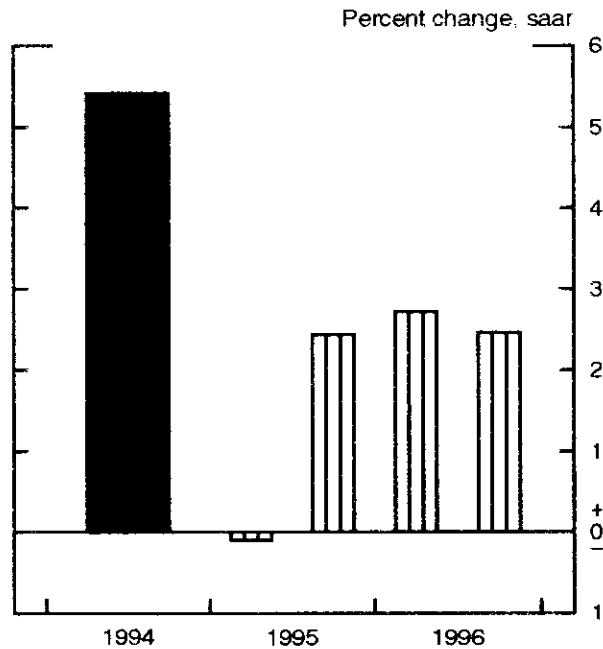
* Weighted by U.S. bilateral non-agricultural exports

Exchange Rates -- Trade Weighted*



* Multilateral trade weights

Real GDP: Canada



Canadian Overnight Interest Rate

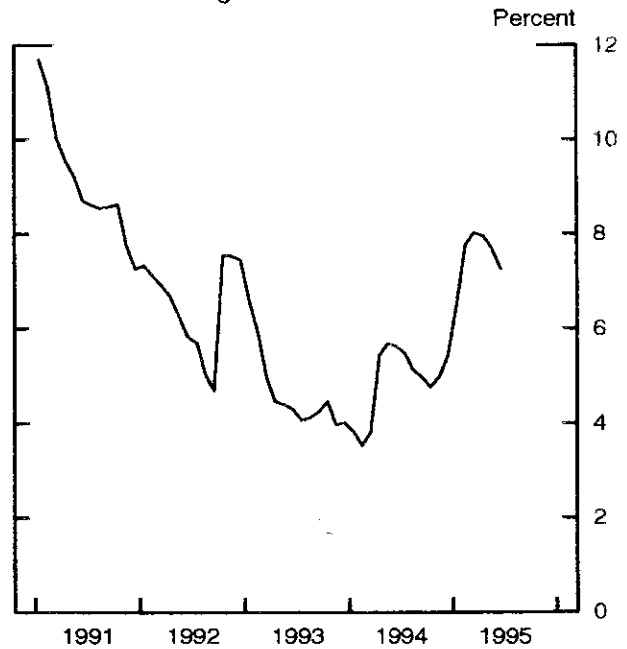
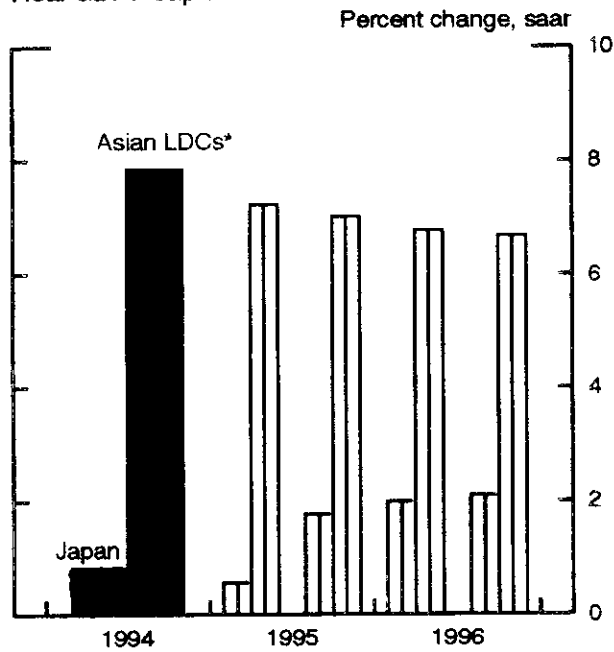


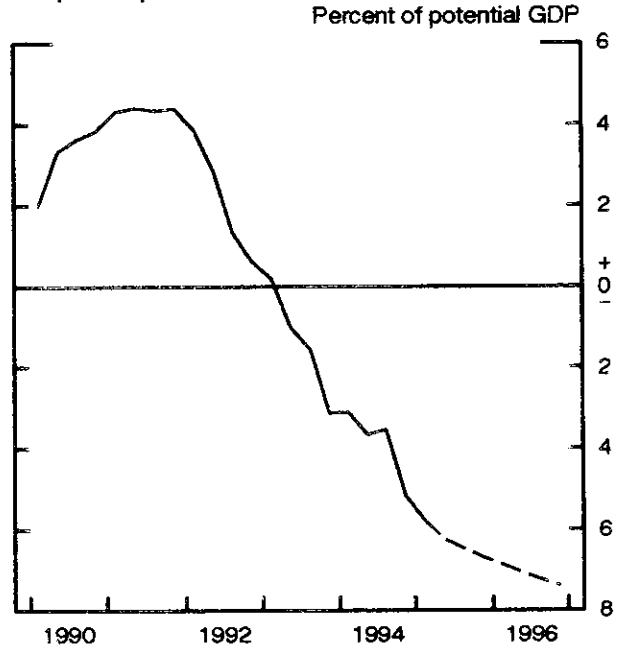
Chart 17

Japan

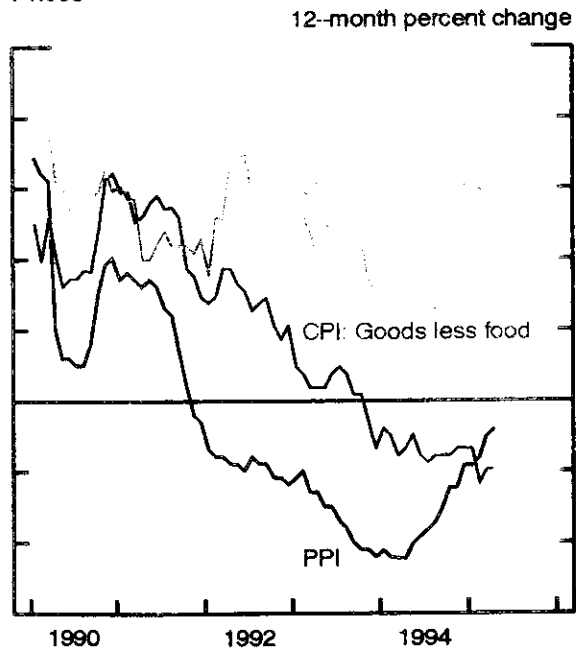
Real GDP: Japan and Asian LDCs



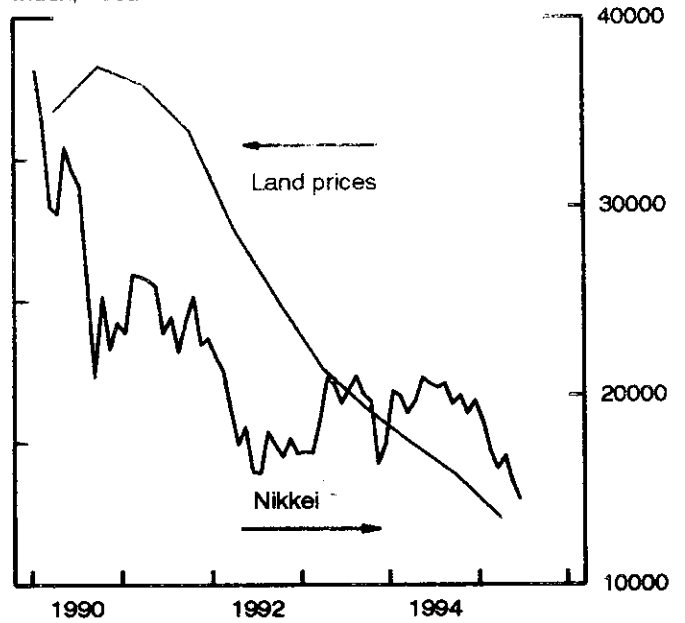
Output Gap



Prices



Stock Market and Land Prices
Index, 1992 = 100



ECONOMIC PROJECTIONS FOR 1995

	FOMC		
	Range	Central Tendency	Staff
<hr/> Percent change, Q4 to Q4 <hr/>			
Nominal GDP	3 ³ / ₄ to 5	4 ¹ / ₄ to 4 ³ / ₄	4.1
previous estimate	4 ³ / ₄ to 6 ¹ / ₂	5 to 6	4.8
Real GDP	1 ¹ / ₂ to 3	1 ¹ / ₂ to 2	1.7
previous estimate	2 to 3 ¹ / ₄	2 to 3	2.2
CPI	3 to 3 ¹ / ₂	3 to 3 ¹ / ₄	3.0
previous estimate	2 ³ / ₄ to 3 ³ / ₄	3 to 3 ¹ / ₂	2.9
<hr/> Average level, Q4, percent <hr/>			
Unemployment rate	5 ¹ / ₂ to 6 ¹ / ₄	5 ³ / ₄ to 6	6.0
previous estimate	5 ¹ / ₄ to 6	About 5 ¹ / ₂	5.4

ECONOMIC PROJECTIONS FOR 1996

	FOMC		
	Range	Central Tendency	Staff
<hr/> Percent change, Q4 to Q4 <hr/>			
Nominal GDP	4 ¹ / ₂ to 6	4 ³ / ₄ to 5 ¹ / ₂	4.5
Real GDP	2 to 3 ¹ / ₄	2 ¹ / ₄ to 2 ³ / ₄	2.2
CPI	2 ¹ / ₂ to 3 ¹ / ₂	2 ³ / ₄ to 3 ¹ / ₄	2.9
<hr/> Average level, Q4, percent <hr/>			
Unemployment rate	5 ¹ / ₂ to 6 ¹ / ₄	5 ³ / ₄ to 6	6.1

NOTE: Central tendencies constructed by dropping top and bottom three from distribution, and rounding to nearest quarter percent.